

Fairfax County Economic Index

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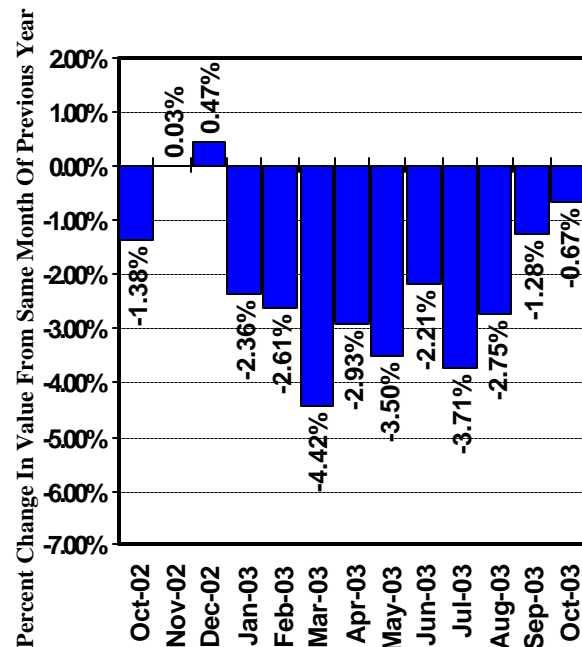
December 2003

The Fairfax County Economy Accelerates in October

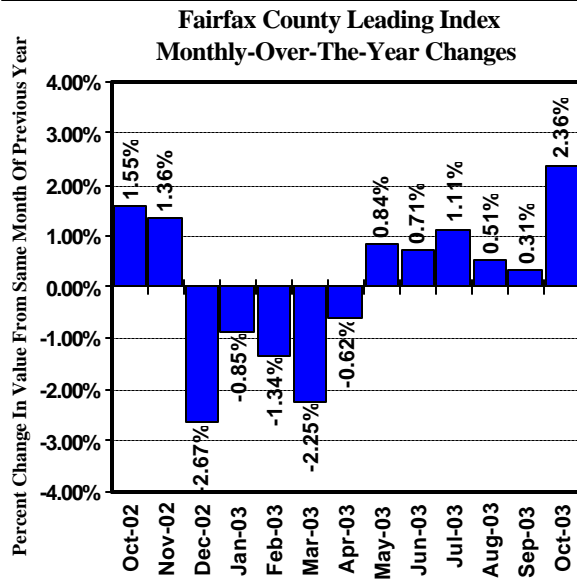
The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased in October to 125.5, for a gain of 1.65 percent. The Index has now been positive for three months in a row. For the year, however, it is still down slightly with October's value 0.67 percent below its same-month value in 2002. With October's gain, the Index has moved higher than the 12-month moving average trend line; that is, the economy's current performance is stronger than its average performance over the past year. Three of the Index's four components were positive in October.

- Total employment increased in October for the ninth consecutive month;
- Consumer confidence (in the present) was up sharply and now has increased two months in a row; and
- Sales tax revenues, adjusted for inflation and seasonal variation, registered a strong increase and has now gained in four of the last five months; while,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, fell following two monthly gains.

Fairfax County Coincident Index
Monthly Over-The-Year Changes



Source: Center for Regional Analysis, George Mason University



Source: Center for Regional Analysis, George Mason University

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, increased to 105.56 in October for a gain of 1.46 percent. October's increase reversed two monthly losses. With October's gain, the Leading Index is up 2.36 percent for the year and it has now exceeded same-month levels in 2002 in each of the last six months. As a result, the Index's 12-month moving average trend has turned positive and is moving higher. In October, four of the Index's five components contributed to its gain.

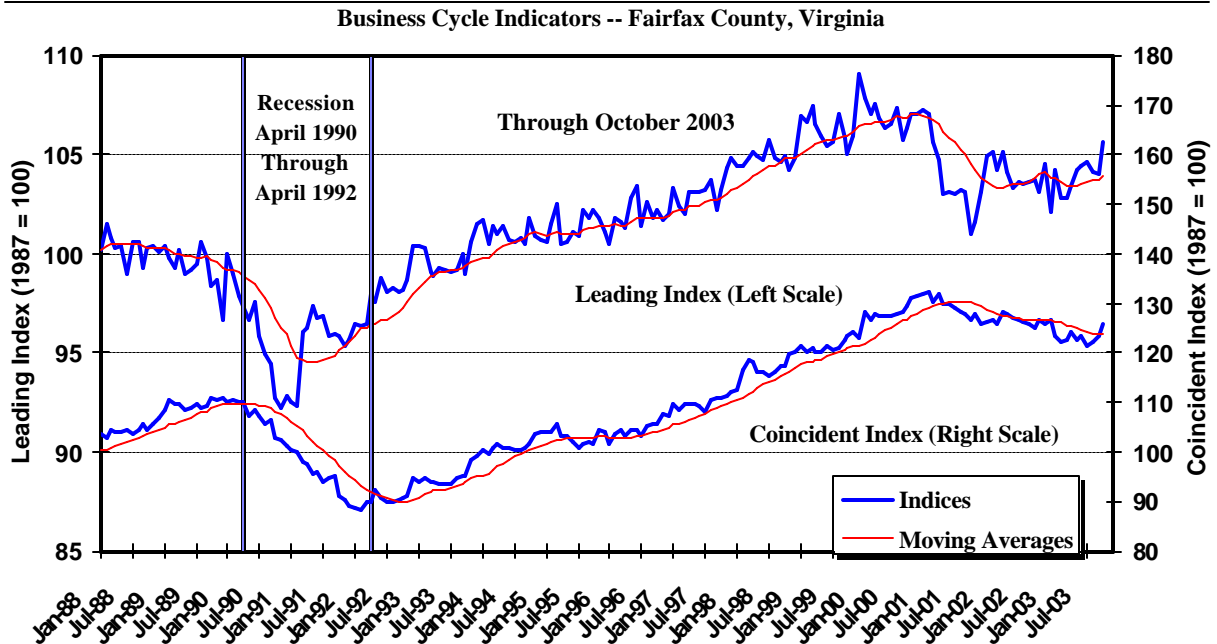
- New automobile registrations increased sharply in October following two monthly declines;
- Initial claims for unemployment insurance decreased (improved) and have now dropped in five of the last six months;
- Consumer expectations (consumer confidence six months hence) registered a strong gain in October reversing its recent downward trend; and,
- Residential building permits gained for a second month; while,
- The total value of residential building permits decreased slightly following its strong gain in September.

The Fairfax County economy achieved broad based growth in October with both its Leading and Coincident Indices registering solid gains. With the Leading Index moving higher for six months and registering its highest value in October since February 2001, it is providing a clear signal that the economy is moving towards sustained expansion. The economy's improvement was also reflected in the renewed strength of its Coincident Index that recorded its highest monthly value so far this year. This month's positive performance was based on reinforcing gains in the County's employment base and consumer spending.

CURRENT CONDITIONS

The positive trend in the economy's leading indicators over the past six months was reflected in the current indicators in October suggesting that the expansion is spreading across the breadth of the economy. This is a sure sign of the economy's growing strength. The County's labor market has shown its strength over most of the year with employment growth approaching two percent (annually) with unemployment dropping from 2.7 percent in October 2002 to 2.1 percent in October 2003. Initial claims for unemployment insurance (i.e., new layoffs) are down 15.6 percent from October 2002 having declined in eight of the last twelve months. With these strong labor market conditions, Fairfax County has continued to dominate the Washington region's overall job growth accounting for approximately one-third of its net new jobs.

Consumer spending has been the one major segment of the economy that has lagged in the County over the past two years. With consumer confidence building, consumers are increasing their spending for automobiles and retail goods while the housing sector, which has been strong throughout the slow down, registered renewed strength in October. Sales tax receipts surged in October gaining 14.6 percent from September on a seasonally adjusted basis and exceeded receipts from October 2002 by 25.2 percent. New automobile registrations in October were up 50.2 percent from September on a seasonally adjusted basis and were 14.8 percent ahead of same-month



Source: Center for Regional Analysis, George Mason University

sales in 2002. Residential building permits were also up running 15.0 percent ahead of same-month 2002 levels.

The only lagging indicator in October was the transient occupancy tax with revenues off 12.1 percent from their October 2002 level. While this indicator is not a measure of local consumer spending, it does measure an important dimension of the County's economy. Tourism has been uneven over the year with transient occupancy tax revenues gaining in six months and declining in six over the past year. As the national economy improves and the business climate strengthens, gains in both business and leisure travel should also improve and, with this improvement, this component of the County's economy should experience steady gains although this trend is not likely to emerge before spring time.

NEAR-TERM OUTLOOK

The Leading Index is pointing to an accelerating expansion. The national economy has out-performed expectations over its second half and is poised to achieve its strongest performance of the decade in 2004. All national indicators are positive, as are almost all economic indicators in the Washington area economy.

The Fairfax County economy gained traction in October after experiencing an uneven performance earlier in the year. October's gains should be the prelude to a solid fourth quarter and to an even stronger performance next year. Job growth is expected to increase slowly over the coming year with gains peaking in 2005 while gains in consumer spending and business investment should fuel broad-based growth across this year's lagging sectors.

The key variable in the County's economic performance will be federal spending, especially procurement outlays for technology-intensive services. These are expected to continue growing next year and should help to generate the new jobs needed to take up the surplus office space in the County; that is, to bring the office vacancy rate down to an equilibrium level required to generate renewed office building construction in 2005. This combination of stronger job growth, continued consumer spending, increased business investment, and renewed commercial construction will be the basis for next year's accelerating expansion that should carry over into 2005 and beyond at slightly slower but sustainable rates than achieved in 2004.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Oct-03 Prelim.	Sep-03 Final	Oct-02 Final	Sep-03 to Oct-03	Oct-02 to Oct-03
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	125.51	123.47	126.36	1.65	-0.67
Leading Index (1987 = 100)	105.56	104.04	103.13	1.46	2.36
Fairfax County Coincident Index Components					
Total Covered Employment (Seasonally Adjusted)	595,579	592,513	584,834	0.52	1.84
<i>Total Covered Employment (Unadjusted)</i>	<i>595,555</i>	<i>593,153</i>	<i>584,811</i>	<i>0.40</i>	<i>1.84</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	254	279	289	-9.01	-12.12
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>466</i>	<i>546</i>	<i>512</i>	<i>-14.61</i>	<i>-9.03</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	10,038	8,757	8,018	14.62	25.19
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>11,960</i>	<i>11,327</i>	<i>9,534</i>	<i>5.59</i>	<i>25.45</i>
South Atlantic Consumer Confidence	92.7	80.4	101.1	15.30	-8.31
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	8,236	5,485	7,172	50.16	14.82
<i>Automobile Registrations (Unadjusted)</i>	<i>7,925</i>	<i>4,840</i>	<i>6,902</i>	<i>63.74</i>	<i>14.82</i>
Initial Unemployment Claims (Seasonally Adjusted)	1,532	1,544	1,816	-0.79	-15.63
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>1,409</i>	<i>1,293</i>	<i>1,670</i>	<i>8.97</i>	<i>-15.63</i>
<i>South Atlantic Consumer Expectations (Unadjusted)</i>	<i>101.4</i>	<i>87.7</i>	<i>83.3</i>	<i>15.62</i>	<i>21.73</i>
Residential Building Permits (Number of Units, Seasonally Adjusted)	346	299	301	15.68	14.98
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>376</i>	<i>321</i>	<i>327</i>	<i>17.13</i>	<i>14.98</i>
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	25,282	26,544	25,385	-4.75	-0.41
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	<i>46,328</i>	<i>46,885</i>	<i>44,936</i>	<i>-1.19</i>	<i>3.10</i>
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	578,879	580,615	568,920	-0.30	1.75
<i>Total Labor Force (Unadjusted, Revised By BLS)</i>	<i>573,950</i>	<i>576,428</i>	<i>564,076</i>	<i>-0.43</i>	<i>1.75</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.05	2.23	2.69	--	--
<i>Unemployment Rate (Percent, Unadjusted, Revised By BLS)</i>	<i>2.08</i>	<i>2.45</i>	<i>2.72</i>	<i>--</i>	<i>--</i>

Notes: Where available, seasonally adjusted estimates are used in the indices. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data.

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We are on the web at:
www.co.fairfax.va.us/comm/economic/economic.htm

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